PAR RECOMMENDATIONS ON UNRESOLVED MAJOR ISSUES

PAR has researched a variety of areas in state and local government. This "Bulletin" consists of a select list of PAR recommendations for consideration during the 1990 regular legislative session. Contact PAR for more details.

STATE FINANCE

Budgetary Reforms

Require that a governor propose a balanced state budget.

The constitution requires that a governor submit a proposed state budget to the Legislature, but does not require that such proposal be balanced. There are specific constitutional mandates that the Legislature enact a balanced budget and that a governor use his item veto power or other means provided in the budget bill to assure that total appropriations do not exceed anticipated revenues.

As a safeguard, a governor should not be allowed to propose an unbalanced budget which the Legislature could not constitutionally enact.

If a governor recommends new or increased taxes or other revenue to finance his proposed budget, proposed spending from the increased revenue sources should be presented in a supplemental budget document.

The constitution authorizes a governor "if necessary" to propose bills to raise additional revenue to help finance his proposed budget, but does not require that he document how the additional revenue would be spent, nor that he submit a proposed budget balanced within existing revenue sources.

Require that the state end the year with a balanced budget.

The constitution requires that the Legislature enact a balanced budget but is silent on the final outcome.

If the state does end a year with a general fund deficit, the first priority on discretionary revenue of the following year should be required to be used to pay off the deficit.

Unforeseen events may cause the state to incur a deficit. Should this occur, the state should pay off the deficit promptly and not allow the situation to worsen. While final figures on a prior-year deficit may not be known until midway of the next fiscal year, as is the current practice, a reasonable estimate of the state’s financial status can be made when a new year’s budget is adopted.

The current procedure for an official estimate of revenues through the Consensus Revenue Estimating Conference should be placed in the constitution to assure continuation. The Legislature should be authorized to change membership of the conference with a two-thirds vote should future problems develop.

The present method of estimating revenues has worked well by removing "political guesstimates." However, the procedure is created by law which could be repealed or changed to make it ineffective.

Louisiana’s volatile and unpredictable mineral revenues (severance tax, royalties, rentals and
bonuses) should be stabilized by dedicating excess revenue above $750 million to a trust fund. The LIFE constitutional dedication should be repealed.

The present constitutional Louisiana Investment Fund for Enhancement (LIFE) has too high a base (now approximately $1.4 billion) to siphon off excess mineral windfalls should they occur; there are no stipulated purposes for which LIFE money is to be spent.

A Rainy Day Fund should be established from a portion of excess mineral revenue to supplement state revenue should it decrease compared to the prior year or decline from the amount projected during a current year.

Louisiana's economy remains heavily dependent on national and international events. A Rainy Day Fund would allow the state to meet temporary setbacks until the economy recovered or permanent solutions were put in place.

Prohibit use of year-end surpluses to finance the state's operating budget.

Year-end general fund surpluses are unpredictable as to occurrence and amount and thus should not be used to finance recurring costs. Rather, they should be used for nonrecurring purposes such as capital outlay. This use of cash surplus should reduce the need for incurring debt to finance the capital outlay budget.

Establish by law a cash flow reserve fund based on a maximum percentage of state general fund revenue deposited in the state treasury.

The deposit and disbursement of revenue in the state treasury is sometimes out of sync. To have sufficient cash to meet state obligations during the year, it has been necessary for the general fund to borrow from other funds (and pay interest), or for the state to issue revenue anticipation notes. In 1988 the state, through the Louisiana Recovery District, issued long-term bonds to meet its delayed cash needs and pay off a cumulative deficit.

The administration has stated it wishes to retain $271 million of excess Louisiana Recovery District bond proceeds as a cash cushion, but there is no legal requirement to do so. The state should have an official policy on a cash flow fund, and the amount or percentage should be determined after study of the treasury's cash flow problems and possibilities for resolving them by more rapid deposit of revenues and better scheduling of disbursements.

Eliminate "open-end" appropriations.

Some appropriations are "estimated at" the amount shown in the General Appropriation Act and thus allow spending to exceed the budgeted amount. Examples of "open-end" appropriations are the Minimum Foundation Program (MFP) for state aid to local schools, supplemental pay for local employees, and per diem pay to sheriffs for housing state prisoners.

All appropriations should be for specific amounts based on the best estimates, and spending should be monitored to prevent overspending. Should a deficit occur, the law should be followed, i.e., approval for incurring the deficit by the Interim Emergency Board and two-thirds legislative approval through mail ballot. State law further provides that if such approval is not obtained, the official responsible for overspending may be removed from office.

Change the law to require earlier publication of the enacted state budget and the state comprehensive year-end financial report.

The enacted state budget should be the state's financial planning and control document for the designated year. State law requires that it be published by October 1 but, in practice, it usually is published when half the year is over. One reason is that the state's year-end financial report likewise is published six months after the close of a fiscal year—the deadline set by state law. Publication of the enacted state budget is delayed until the prior year's surplus or deficit is reported in the year-end financial report. Publication of the year-end financial report is delayed because the state does not have a central uniform computer accounting system for rapid collection of data from all agencies and programs. The state's present accounting system (FACS) does not include all state departments and agencies for a comprehensive report.

The state should either revamp FACS or initiate a new centralized accounting and management information system to provide timely state reporting and provide information needed for policy and management decisions. The state also should find an alternative to "closing its books" on liquidation of encumbrances; state law now allows 45 days.

The state should develop a long-term operating budget plan (three to five years) as part of its annual budgeting process, with the plan updated each year. The first year of the long-range plan should be the basis for enacting the annual operating budget.

A multi-year operating budget would show the future impact of revenue and spending decisions, alert the state of looming crises, cause the state to establish goals and objectives, and design strategies to achieve them.

Agencies were asked to include long-range plans in their fiscal 1990-91 budget requests. Such plans need to be evaluated to determine if they are realistic and compatible with related plans of other agencies, and then formulated into a comprehensive, coordinated strategic state plan.
State and Local Taxes

The state and local tax base should be revamped to provide greater equity among taxpayers, more stability, encourage and reflect economic growth, reduce the state's overreliance on the sales tax and mineral revenue, place greater reliance on the underutilized property tax and individual income tax, and give local governments more authority to raise money to finance their services.

The U.S. Advisory Commission on Intergovernmental Relations (ACIR) has formulated a method to measure each state's tax capacity as well as its reliance on particular taxes. Based on ACIR data for 1986, Louisiana ranked third among states in reliance on state and local sales taxes, 40th in reliance on the individual income tax, and 47th regarding the property tax.

Since 1986, Louisiana has increased its overreliance on the sales tax by suspending, on a year-to-year basis, various exemptions. Constitutional provisions set the rates for the individual income tax and establish property tax exemptions.

Eliminate or reduce compensation (tax discounts) to vendors and dealers for accurately and timely reporting of collections from the sales, alcoholic beverage, beer and soft drink taxes, and reduce to the national average the tobacco tax discounts.

Louisiana allows relatively high vendors' compensation for collecting taxes on consumer items. Originally, such credits were allowed to offset costs of affixing tax stamps or crowns on particular items, but when the state changed its method to reporting gallonage or wholesale price, the discounts continued. Tax stamps still are used for cigarettes, but Louisiana's 6% allowance is one of the highest in the country. When tax rates increase, vendors receive a larger amount even though their administrative costs remain the same.

Capital Budget, State Facilities

Initiate and provide continuous financing for a preventive maintenance program for the state's buildings to avoid need for costly repairs or new construction.

The state has failed to provide funding to maintain its buildings and thus faces costly major repairs or replacement costs.

Develop a state policy on whether the state should buy or lease facilities.

Various state agencies continue to operate in rented facilities and in some cases, the rent would have been sufficient to purchase or construct a building in a relatively short number of years.

Exclude local projects from the state capital budget unless they are part of a statewide program, such as parish prisons.

Individual local projects have been included in the state capital budget, thus favoring some areas.

LOCAL FINANCE

State Aid

An interim study commission should be created to develop a comprehensive formula for state aid to local governments other than school districts to replace state revenue sharing and most of the present aids and supplements. The formula should distribute state aid on the basis of local needs, tax ability and tax effort.

The state presently aids local governments through a variety of programs which bear little relation to local need, tax ability or tax effort. State salary supplements to local employees limit local spending discretion and reward those with greater resources to hire staff. State revenue sharing has become a hodgepodge of distribution formulas differing from parish to parish.

A comprehensive local government finance data collection system should be developed by the Legislative Auditor's Office, with assistance of the Louisiana Tax Commission and Legislative Fiscal Office.

There is no comprehensive statewide collection and reporting of local revenues and expenditures. This data would be very useful in shaping legislation on local tax authority and state aid.

Property Tax

The homestead exemption should be lowered from $7,500 to $3,000 of assessed value for new and renewed school millages.

A partial reduction in the homestead exemption would broaden the property tax base by requiring more homeowners to contribute to the support of their school systems through property taxes. Statewide, about 80% of all homes are totally exempt from paying school taxes. Voters would have to approve each tax to which the lower exemption applied. Another benefit would be greater citizen involvement in local education.

The homestead exemption should be removed from city millages in New Orleans.
New Orleans is the only municipality in the state whose taxes are covered by the homestead exemption. This change would put New Orleans on an equal footing with other municipalities and provide it additional revenues. The homestead exemption in Orleans Parish still would apply to those types of taxes which are exempt in other parishes.

Real property should be reassessed annually to reflect the effects of inflation or deflation on current fair market values. The Louisiana Tax Commission should select a procedure for computer-assisted reassessment using factoring or trending methods. Actual reappraisal should be required once every four years.

Personal property now is reassessed annually, but real property is reassessed only every four years. In periods of normal inflation, taxable values of real estate can fall 15% behind market values during the assessment cycle. This puts personal property at a comparative disadvantage and denies local government potential revenue growth.

Local Sales Tax

Allow no more than one local sales tax collector per parish.

Local taxing bodies may collect their own sales taxes and, in a given parish, the school board, parish and various municipalities each may have their separate tax collector to which dealers must report. This inflates the cost of collection and the cost to businessmen. In a number of parishes, the local taxing bodies have agreed to have one collector and in one instance, several parishes agreed to have one collector.

Ultimately, the collection of local sales taxes, except on motor vehicles, should be centralized in the state Department of Revenue and Taxation.

EXECUTIVE BRANCH REORGANIZATION

Require a continuing effort to streamline the executive branch and eliminate overlapping and duplicating agencies and programs.

Give the governor authority to reorganize the executive branch of state government, subject to constitutional restrictions and approval by both the Senate and House.

Authority of a chief executive to reorganize the executive branch of government is known popularly as the "Eisenhower Plan," used in the federal government and by a number of states. It allows the chief executive to be held more accountable for his actions and for the efficiency and management of the government he heads.

Make the commissioners of agriculture, elections and insurance appointive rather than elected, as the constitution allows with two-thirds legislative approval.

These positions require professional expertise which may not be achieved through popular election, and diffuse a governor's authority. The governor appoints heads of other major departments including economic development, labor, transportation and development, social services, and health and hospitals.

Streamline the governor's office by removing agencies that carry out programs and transfer them to related departments.

The Office of the Governor should consist of components which assist the governor in carrying out his executive responsibilities. According to the fiscal 1990-91 Executive Budget, the Office of the Governor also includes a number of agencies that deliver services: the Governor's Commission on Indian Affairs, the Mental Health Advocacy Service, Department of Military Affairs, Office of Literacy, Office of Women's Services, Red River Valley Area Council, Louisiana Stadium and Exposition (Superdome) District, Board of Tax Appeals, Louisiana Commission on Law Enforcement and the Administration of Criminal Justice, Department of Veterans Affairs, Louisiana War Veterans Home, and Office of Elderly Affairs. There are a variety of services and programs within these components.

Strengthen legislative oversight and evaluation of programs and operations of executive branch agencies by creating an expert select staff, either in the Legislative Fiscal Office or associated with a Joint Legislative Committee on Oversight and Sunset Review.

The state has a sunset review law whereby departments are reviewed periodically. Review is by the standing committees and their staff in the particular subject area. However, committee staff may lack expertise for such review.

Facilitate recall and removal of elected state and local officials by lowering requirements to petition for a recall election.

The constitution provides three ways to remove public officials from office: impeachment, removal by suit, and recall by petitioning for a recall election. The law was changed as to requirements for petitioning for a recall election—from 25% to 33.33% of registered voters in the applicable election district (or 40% if the district has less than 1,000 registered voters).
PUBLIC EMPLOYEE RETIREMENT

The administration and benefit plans of the 13 state and statewide public retirement systems should be consolidated. A joint legislative study committee should be provided adequate funding and staff to devise a procedure and timetable.

A consolidated retirement board should be created to include several expert public members appointed by the governor in addition to member-elected representatives and legislative representation.

Existing benefit plans should be maintained for current employee members under the consolidated board, except where similar plans can be merged.

A new second-tier retirement plan should be created for new nonhazardous-duty employees. A subplan should be provided for employees covered by social security. Elements of the new plan should include:

- a normal retirement age set at age 62;
- minimum service of 10 years;
- career retirement at 30 years' service at age 55 without penalty;
- early retirement (less than 30 years' service) with actuarial reduction from normal retirement age, and
- deferred annuity at normal retirement age if an employee withdraws from employment with 10 years' service.

Benefits under the second-tier retirement plan should be determined using 2% of average final five years' salary per year of service. An additional defined contribution option should be provided to allow employees to increase retirement savings through additional tax deferred withholding.

Employee contributions to the new plan should be limited to half of the normal cost for that system (plus optional withholding).

Special retirement legislation benefiting individuals or select small groups should be prohibited by law.

Full-time elected officials (local, state and judges) should not have special benefits unavailable to other members of the retirement system to which they belong. State legislators should be considered full-time for retirement purposes. Present early retirement and extra benefit provisions for such officials should be repealed.

Part-time elected officials (e.g., city councilmembers, police jurors and school board members) should be prohibited from joining public retirement systems claiming credit for such service under subsequent full-time public employment.

Retirement credit should be prohibited for unused annual or sick leave accrued in the future by any public employee.

Cost-of-living increases (COLAs) for retirees should be granted only by legislation (not at board discretion) and limited to those who have reached age 62 and been retired one full year.

Responsibility for investing the assets of the state and statewide retirement systems should be consolidated within the Department of the Treasury.

A professional in-house investment staff should be developed to manage the passive investment portfolios (investments not meant to be actively traded).

A significant portion of the equity and bond portfolios should be managed passively through indexing (purchasing stock and bond portfolios which mirror the mix used in major stock and bond market indexes, thus assuring that earnings will equal the market).

A five-member expert investment advisory committee should be created to determine basic investment policy (asset allocation), select professional money managers, and review performance evaluations.

The statutory limit on stock investments should be increased to 50% of the total fund assets.

The use of retirement system funds for socially desirable or economic development investments providing below-market earnings should not be required by law.

The current multiplicity of public employee retirement systems and plans developed piecemeal, resulting in a wide variation in benefits, funding levels, administrative costs and investment practices. Liberal early retirement, excessive benefit formulas, costly special benefits (e.g., for part-time elected officials), and lack of adequate funding in earlier years have added to the present taxpayers' burden. While the state now is
tackling the funding problem, the question of revising benefits largely has been avoided. A second-tier plan for new employees would correct benefit and funding problems in the future.

System consolidation would produce administrative savings by avoiding duplicative professional services under the present 13 systems. Creating a new management board with greater public representation would allow more public input into retirement policy and permit appointment of persons with pension expertise. Consolidated investment and heavy reliance on indexing would reduce management costs, permit development of in-house expertise, and offer potential improvement in earnings. An expert oversight board would remove investment policy from boards whose members largely are lay persons.

ELEMENTARY-SECONDARY EDUCATION

- Repeal teacher sabbatical leave for "rest and recuperation," and substitute a state-local plan for disability insurance for long-term illness extending beyond earned sick leave.
- Repeal constitutional authority to create sub-school districts.

Impose sanctions on school systems and schools that show lack of progress, based on statistical indicators (School Report Card) scheduled to be initiated in the fall of 1990. Problems should be diagnosed by an intervention team but if they persist, the governor should appoint a manager for the school system.

The 1988 Children First Act provides for cash awards to schools that progress but no sanctions for schools that do not.

Establish a state-funded program for grades K-3 to supplement the federal Chapter I program for low income families with "children at risk" of dropping out of school.

The state program should target the same type of economically and educationally disadvantaged children served through the Chapter I federal program. It would supplement and be coordinated with the underfinanced federal program.

Teacher sabbatical leaves should be restricted to professional development and targeted to subject and geographic areas where there are shortages.

The state should expand its forgivable loan program for education majors who will teach where there are shortages.

Teacher evaluation, required by the 1988 Children First Act and to be initiated this fall, should be implemented as planned.

The treasurer's authority to invest 8 (g) funds for education should be expanded through the "prudent man rule."
The governor should be authorized to recommend changes in proposed 8 (g) spending.

The Legislature should approve 8 (g) administrative costs and funding for programs through a concurrent resolution.

The 8 (g) financing of certain types of administrative costs should be prohibited: per diem and expenses of members of BESE and Regents; salaries and benefits of top administrative staff of BESE, Regents and the State Department of Education; indirect costs to colleges and universities awarded research grants; operations of the Department of the Treasury; fees to banks which act as custodian of 8 (g) funds, and cost of postaudits of 8 (g) activities.

An annual "special purpose audit" of 8 (g) financing by the legislative auditor should be required.

Preschool programs for all four-year-old "children at risk" should be required.

Provide funding--8 (g) or other sources--for greater use of computer technology to assist teachers in student learning.

Make a long-term commitment to continue the Louisiana Education Assessment Program (LEAP), the state's comprehensive student testing program, so that student test scores over a number of years will provide needed data to track and analyze student progress.

POSTSECONDARY VO-TECH SCHOOLS

Management control over the state's system of vo-tech schools should be removed from the Board of Elementary and Secondary Education (BESE) and placed under a separate vo-tech policy board with members appointed by the governor for four-year concurrent terms. The new board should appoint a director with authority to administer the statewide system. The system director should be provided the necessary central staff. School directors should be appointed by the system director, subject to board approval.

The present vo-tech management structure is unworkable. BESE, with eight of its 11 members elected from districts, is the management board for the schools. Even an appointed state education superintendent is incapable of providing adequate centralized management because he lacks the power to appoint school directors. The involvement of elected board members in administrative matters regarding schools in their districts thwarts the development of systemwide management and coordination.

A separate board would provide clearer focus on vocational education, remove the problem of geographical politics, and provide the setting for more professional and effective system management.

A centralized vo-tech management information system should be devised to assure school and program accountability by closely monitoring enrollment and student characteristics, student follow-up and program costs.

Formal performance evaluations of each program should be conducted annually at the school and system level. The central staff should evaluate the operation and management of each school periodically.

Curricula should be revised continually and updated and standardized where appropriate, based on evaluations to best meet student and employer needs.

Each school should be required to create advisory committees of employers and practitioners to evaluate and oversee each of its major program areas.

A formula for funding vo-tech schools should be devised based on costs per student contact hour for each program, with equitable provisions for administrative and other costs.

The vo-tech schools provide very specific job training and their effectiveness is subject to measurement and evaluation. Unfortunately, the necessary management system never has been implemented. The schools and their programs should be held accountable and funded on a fair and reasonable basis.

Next week's "Bulletin" will update PAR's "Citizen's Guide to the 1988 Louisiana Legislature." A current roster of names and addresses of legislators, as well as committee assignments, will be included, along with pictures and biographical information on new Representatives. Copies of the Guide are available at reduced prices for bulk orders.
RECOMMENDATIONS

Consensus Committee for Louisiana's Future

Over the past year, PAR's President chaired a committee representing diverse groups and policymakers, whose goal was to agree on budget and tax reforms which would bring vitality to Louisiana's economy. The committee recommendations include eight reform proposed constitutional amendments, all prefiling for the 1990 regular session, and other reform statutory changes.

Budget Reforms
- Require the state end a fiscal year with a balanced budget.
- Establish a Rainy Day Fund with mineral revenue above $750 million a year.
- Constitutionally protect the Consensus Revenue Estimating Conference process.
- Require that state surpluses be used only to finance nonrecurring items in the capital budget.

Local Government Tax Reforms
- Lower the homestead exemption from $7,500 to $3,000, only for new and renewable voter-approved millages.
- Remove the homestead exemption for city millages of New Orleans.
- Allow only one local sales tax collector per parish.

Economic Development
- Remove the property tax on inventories through state tax credits granted manufacturers, distributors and $250,000 value for retailers.
- Remove debt from the corporate franchise tax base.
- Increase the personal income tax for those with larger incomes.

For more detail on the Consensus Committee's recommendations, write PAR.